

Department of Housing and Community Development
Testimony for
Fiscal Year 2002 Gross Budget

Before
The Committee on Economic Development
Councilmember Harold Brazil, Chairperson
Council of the District of Columbia



Testimony of Milton J. Bailey
Director
Department of Housing and Community Development

Wednesday, March 28, 2001
10 a.m.

Good morning, Chairman Brazil, members of the Committee on Economic Development, and Council staff. I am Milton J. Bailey, Director of the Department of Housing and Community Development, which I will refer to as “DHCD” or the “Department” throughout my testimony.

I am pleased to be here this morning to testify on Mayor Anthony Williams’ Fiscal Year 2002 (FY 2002) budget request for the Department of Housing and Community Development. I am accompanied by members of DHCD’s management staff who will assist me in responding to your questions. They are:

- Henry W. Mosley, Chief Financial Officer, Business Services and Economic Development;
- Neil Drobenare, Chief Operating Officer;
- Paul Savage, Deputy Director for Policy, Strategy, and Communications; and
- Vanessa Akins, Deputy Director for Residential and Community Services.

There are also several other key staff members seated in the audience that can assist me in responding to your questions regarding the FY 2002 gross budget.

In my remarks this morning, I will discuss:

- DHCD’s FY 2002 baseline gross budget,
- DHCD’s FY 2002 capital budget, and
- some of the major activities currently underway at the Department.

Our FY 2002 gross budget follows Mayor Anthony Williams' objectives to get back to basics. We want to make sure every neighborhood is clean, safe, and free of abandoned and dilapidated houses that bring down property values and become havens for drug activity. We want to make sure low- and middle-income residents can take advantage of the homeownership incentives offered by DHCD and can afford to stay in the neighborhoods they have lived in for years.

In FY 2002, we do not plan to add new programs or significantly change the Department's funding categories from those of past fiscal years. However, we do plan to change the way in which we spend money. We are not taking the shotgun approach to development any longer. We plan to strategically spend our funds in targeted areas and maximize the resources we have.

Baseline Gross Budget

DHCD requests approval of its proposed gross budget for FY 2002. Mr. Chairman, in the interim period since the Mayor Williams' gross budget was prepared by the Office of the Budget, the Department has held a public hearing (February 22, 2001) on the federal portion of our budget. As a result of that hearing, and the resultant internal discussions among senior staff of the agency, a modified federal budget is proposed in the Department's Consolidated Plan Fiscal Year 2002 Action Plan. The FY 2002 Action Plan will be submitted shortly to the Council for approval. We are requesting that the Committee on Economic Development approve the attached restructured federal portion of Mayor Williams' gross budget, as outlined in DHCD's

federal Action Plan for FY 2002. This restructuring has the approval of the Office of the Chief Financial Officer.

The FY 2002 gross budget request is \$57.7 million with 150 fulltime equivalent (FTE) positions—an increase of \$9.4 million from the FY 2001 gross budget. The total baseline gross budget includes three different sources of funds:

1. local (appropriated funds),
2. other (repayment accounts), and
3. federal (Consolidated Plan for the District of Columbia FY 2002 Action Plan entitlement funds).

Local Funds

The local appropriated funds are \$7.4 million with 13 fulltime positions, an increase of \$3.7 million and 6 FTEs. The increase in funding and positions will help support the operational requirements associated with the Department's disposition of government-owned properties.

In addition, local funds provide financial assistance to District residents who do not qualify for federal grant monies because their incomes exceed federal guidelines. Therefore, these funds serve as a catalyst to help retain and attract middle-income and working families to the District. Local funds also support nonfederal rent, utilities, and telephone costs, and they provide the local matching funds for the federal HOME program.

Other Funding

Other funds total \$8 million, which is an increase of \$3.5 million and no FTEs from the Fiscal Year 2001 (FY 2001) budget. These monies come from repayment funds and will be used for the Home Purchase Assistance Program (HPAP), Multi-family Residential Rehabilitation Program, and the Housing Production Trust Fund Program.

Federal Funds

Federal funds total \$42.2 million with 137 full time positions, an increase of \$2.2 million in funds. There are four U.S. Housing and Urban Development (HUD) federal entitlement grant programs included in the Consolidated Plan for the District of Columbia. They are:

- Community Development Block Grant Program (CDBG),
- HOME Investment Partnerships Program (HOME),
- Emergency Shelter Grants Program (ESG), and
- Housing Opportunities for Persons with AIDS Program (HOPWA)

In FY 2002, the CDBG budget increased by \$804,000 to \$33.3 million, which is an increase of 2.5 percent. Of the four federal programs, CDBG is by far the largest. CDBG funds are the backbone of the Department's Development Finance Division. Most of our projects are funded with CDBG dollars. In FY 2002, several projects in our pipeline will receive CDBG funds. For example:

- \$2.5 million is earmarked for The ARC community center in Ward 8,

- \$500,000 will be provided for lead base paint activities in Wards across the city, and
- \$822,000 is obligated to convert the Syphax School in Ward 2 into 41 for-sale housing units.

HOME program funding increased by \$1.2 million to \$8 million—an increase of 18.4 percent. The Department has already received proposals from developers interested in using HOME funds for their projects in FY 2002, including a proposal by Victory Housing for \$700,000 to rehabilitate a multifamily property located at 1611 Park Road, NW.

The ESG program funds slightly increased by \$4,000 to \$830,000—an increase of .5 percent. Through a grant with the Community Partnership for the Prevention of Homelessness, ESG funds will be used to provide much-needed services to Washington's homeless population.

The Department of Health manages the HOPWA program funds. Dr. Ivan C. Walks, Director of the Department of Health, will provide the City Council with details about his agency's plan to spend ESG funds in FY 2002.

Program Initiatives

In FY 2001, the Department's 54 budget lines were reduced to 32, through consolidation and abolishment. The budget lines are organized into

the following six groups, which reflect the major activities of the Department:

- Homebuyer Assistance and Home Recycling and Preservation,
- Affordable Housing Production,
- Community Organization Support,
- Homeless Support and Prevention,
- Economic and Commercial Development, and
- General Administration and Overhead.

The *Homebuyer Assistance and Home Recycling and Preservation* control center will be funded at \$18.5 million, an increase of \$4 million. These funds will be used to:

- provide homebuyer assistance to hopeful homebuyers,
- help homeowners rehabilitate their homes to meet D.C. Housing Code standards, and
- acquire and sell foreclosed, boarded up, and abandoned housing units to first-time homeowners under the Homestead Housing Preservation Program.

HPAP is one of the Department's signature programs. We use federal funds to help hundreds of residents become homeowners each year. In Fiscal Year 2000, the HPAP provided 396 new homeowners loans, totaling \$6.5 million. So far in FY 2001, DHCD has provided 159 loans and is on track to meet our performance measurement goal of 433 loans.

In FY 2002, HPAP's total budget is \$12.2 million, which is an increase of \$3.3 million over the FY 2001 budget. In addition to funds being used for

HPAP loans, \$3 million will be transferred to the D.C. Housing Finance Agency (HFA) to buy down mortgage loan interest rates for low-income residents. In the past, HPAP funds have effectively been transferred and used by HFA for homebuyer assistance activities. In fact, the Department will partner with HFA staff to start a program that places the interest earnings from prior transferred HPAP monies into a fund, which will be reinvested in bonds for homeownership programs that assist low-income residents. It is this high level funding commitment and collaborative effort with the HFA that prove DHCD is committed to increasing homeownership in Washington.

Since more than 70 percent of the District's occupied housing units were built prior to 1959, it is important that we continue to renovate houses to keep them up to D.C. Housing Code standards and to ensure the properties meet the needs of residents living in the new millennium. The Single Family Residential Rehabilitation Program is the Department's vehicle to help homeowners renovate their homes. In FY 2002, the rehabilitation program's budget will be \$2.9 million dollars, which is an increase of about \$1.1 million.

The Homestead Housing Preservation Program is another one of DHCD's more popular programs that assists first-time homeowners. This program sells abandoned and dilapidated properties to citizens and developers for as little as \$250 a unit, returns the properties to the District's tax rolls, and facilitates the rehabilitation of houses.

In FY 2002, the program's budget is \$1.7 million, which is a decrease of \$455,000. However, the Department has allocated \$750,000 for the Department's new Land Disposition unit. The mission and objectives of the Homestead program and Land Disposition unit are complementary, and thus both supports DHCD's efforts to acquire and sell abandoned properties in the District. Taking this approach to the situation, we can conclude that the District's budget for eliminating blighted and abandoned properties has remained the same for a total budget of \$2.5 million.

It's also important to note that the Department is revamping the Homestead program. The proposed changes would authorize the Department to sell properties to groups that will develop them as rental properties, in addition to selling them to prospective homeowners; establish a Repayment Fund for Homestead loans, so that program income is recycled directly back into the program; and allow DHCD to consider unsolicited proposals for Homestead properties. A bill outlining these improvements to the Homestead program will be forwarded to the City Council very soon and will surely advance the Department's ability to acquire and sell properties to residents and developers.

As you know, a few landlords in the city own poorly maintained properties, which have caused unsafe and uninhabitable conditions for their tenants. Many residents living in these situations often decide to take matters into their own hands by purchasing and rehabilitating the properties for themselves. To assist residents in purchasing their apartment buildings, the Department has increased the budget of the Tenants Apartment Purchase Program by almost 50 percent. In FY 2002, the program's budget is

\$658,000, and the Department is committed to funding the program at a higher level in upcoming fiscal years, if residents demonstrate there is a need.

The *Affordable Housing Production* control center will be funded at \$17.9 million, which is an increase of \$2 million. With the tight housing market, this initiative will be in the forefront of the Department's daily activities.

The Department will use its funds to:

- provide financial assistance for the rehabilitation or construction of affordable housing units,
- increase homeownership opportunities in areas with a high concentration of low-income or rental housing, and
- support neighborhood improvement efforts such as child development and community centers that increase residents' quality of life.

In FY 2002, DHCD has made notable changes to the funding levels of programs in this category. For example:

- The Construction Assistance Program's budget is \$12.8 million, which is an increase of \$3.9 million. This increase reflects the need for the District to support efforts by developers to construct new housing in the city's demanding housing market.
- The budget for the Multi-Family Housing Rehabilitation Program has decreased by \$1.2 million, for a total of \$2.6 million. At first glance, one might think the Department is not committed to rehabilitating large multifamily properties, but this is not the case. The Department has evaluated the proposed projects in the pipeline

and carefully calculated the amount needed to ensure these projects are completed. The other funds have been earmarked for community revitalization projects or social fabric projects, as the Department's staff calls them. From this point forward, the Department will no longer allow excess funds to remain in responsibility centers without being spent.

- The \$875,000 in CDBG and HOME funds in the Housing Production Trust Fund have also been moved out of that responsibility center and earmarked for social fabric projects. These federal funds have spending restrictions that are not inline with the goals of the Housing Production Trust Fund. Instead, the Department will use the \$25 million generated from the sale of the Department of Employment Services building to fund this responsibility center.

The *Community Organization Support* control center will be funded at \$10.4 million, which is an increase of \$3.9 million. The largest increase in funding in this control center came from the \$3 million in funds from other responsibility centers that was placed in the Special Grants Program to fund social fabric projects. Community Organization Support funds can be used to complete fair housing studies, support Community Based Organizations (CBO) that counsel residents on housing issues, and support select Community Development Corporations (CDC) in neighborhoods across the city. These funds will be used to provide crucial administrative support to 11 CDCs. In addition, five CBOs will be funded to counsel thousands of residents on important housing issues, such as:

- home purchase assistance,

- home maintenance assistance, and
- fair housing enforcement.

Recently, DHCD funded two studies to assess the needs of the Georgia Avenue commercial corridor and East of the River. The findings from both studies pointed out the need for community revitalization projects or social fabric projects in our neighborhoods. In FY 2002, DHCD will support social fabric projects that offer residents services that improve their day-to-day needs and pave the way to creating neighborhoods that developers find worthy of commercial and housing development. These social fabric projects include:

- \$1 million has been set aside to renovate and expand recreation centers services. As you know, these neighborhood centers are safe havens for thousands of children, and they deserve to have safe places to learn and play.
- And, DHCD has committed \$3.3 million to construct new libraries in Wards 7 and 8, which will give our sons and daughters easy access to the information and tools they need to succeed.

DHCD works side-by-side with CDCs to help revitalize our neighborhoods. CDCs are located in the heart of the neighborhoods they serve, which gives the staff an excellent understanding of the communities' needs. In FY 2002, DHCD has \$4.8 million in the Neighborhood Development Assistance Program (NDAP) budget, which is an increase of \$664,735. NDAP monies provide administrative funding for select CDCs and to support development projects and activities that are consistent with the strategic investment plans for the District.

The *Homeless Support and Prevention* control center will be funded at \$790,000, which is a \$4,000 increase from FY 2001. This initiative provides funding to the Community Partnership for the Prevention of Homelessness, on behalf of the city government, to support the city's homeless populations. Emergency Shelter Grants can be used for:

- homeless prevention activities,
- renovation of homeless shelters, and
- administrative support for homeless outreach hotlines.

The *Economic and Commercial Development* control center will be funded at \$1.8 million, which is a decrease of \$242,655. Economic and commercial development is also a major focus for the Department. Funds are used for the agency's Section 108 loan payments and provides financial support to the city's Marketing Center. Our funds are also used to:

- effectively leverage private funding in key under-served communities across the city,
- help retain and attract businesses, and
- identify and market government-owned sites ready for redevelopment.

The *General Administration and Overhead* control center will be funded at \$8.3 million, which is a decrease of \$200,000. Funds are used to provide the general backup support for the agency's daily operations. The most notable change in this control center is the increase in the Office of Strategy and Communications' budget. We have increased this department's program budget by \$236,000 to help improve our marketing and promotional activities. The Department's current efforts to educate the public on

DHCD's programs could be improved, and we are in the process of drafting the Department's first marketing and communications plan. We will work in coordination with the Office of Communications and the Marketing Center to ensure this plan effectively reaches individuals of all income levels and informs them of the benefits of DHCD programs.

Capital Budget

The FY 2002 capital budget request is \$19.5 million to support the following three ongoing initiatives:

- infrastructure improvements to the Fort Lincoln community,
- economic development of the Southwest waterfront, and
- creation and support of affordable housing, including \$7 million allocated for affordable housing in the Anacostia community and \$3.7 million to support the revitalization efforts of the Far SE/SW Bellevue projects.

DHCD Current Activities and Initiatives

DHCD recently completed its public hearing on its Consolidated Plan FY 2002 Action Plan. The comments received at the public hearing were largely consistent with the comments provided by residents at the Department's "Needs Hearing" in October 2000. DHCD plans to alter the FY 2002 Action Plan to ensure the agency's federal dollars are used to resolve the issues raised by the community, the most important of which was to maintain affordable rental housing.

DHCD's budget is aligned with the goals and missions of Mayor Williams, which is also inline with those of our constituents. We plan to effectively and wisely spend our FY 2002 funds, just as we are currently doing this fiscal year. For example, in the first quarter of FY 2001, the Department used its funds to:

- make 159 HPAP loans;
- create 1,098 permanent and temporary jobs;
- fund the rehabilitation of 441 multifamily housing units and seven single-family housing units;
- provide outreach and hotline services to 3,071 individuals; and
- acquire more than 90 vacant, tax-delinquent properties to be sold in FY 2001.

In December 2000, I outlined my overarching objectives for DHCD in my confirmation hearing testimony. I discussed my plans to implement housing and economic development initiatives that support the growth trends set into motion by the Williams Administration and this city council, and to facilitate our collective desire to spread economic growth and affordable housing opportunities deep into our under-served neighborhoods. As I mentioned in my testimony for the Department's Oversight Performance Hearing earlier this month, I have made significant strides toward meeting many of those goals. For example:

- The Department has started to develop its comprehensive, long-range affordable housing strategy for the District.
- DHCD released Request for Proposals (RFP) for Camp Simms and the Mather Building.

- The Department completed its comprehensive legislative agenda for the City Council, which proposes improvements to the Homestead program, updates and improvements to the Department's Housing Production Trust Fund, amendments to our building codes to remove disincentives to remodeling older homes, and other pieces of legislation. Mayor Williams has approved the legislative agenda, and it will be forwarded to the City Council soon.

During the Oversight Performance Hearing, I also discussed the Department's inability to spend all of the federal dollars allocated each year, which results in millions in carry forward dollars each year. The city receives approximately \$40 million in federal funds each year, but the Department is geared to spend only about \$30 million per year. I would like to reiterate to the city council that the Department is reengineering the way we think to wisely spend our federal funds and eliminate this problem.

In FY 2002, the Department will continue its plans to reduce carry forward funds by supporting projects and initiatives that help the social fabric of our communities. These social fabric projects will fall outside of the normal realm of Department-funded projects, such as rehabilitating apartment complexes and constructing new commercial venues. We will work in collaboration with other District government agencies to expend these funds to increase public safety, rehabilitate libraries and recreation centers, relocate individuals who are displaced because of uninhabitable housing conditions, and support other projects that positively affect the quality of life for residents.

In addition, the Department's is fixing its housing production and delivery system by:

- Providing clear policy direction as to the city's affordable housing preservation and development objectives.
- Aligning individual staff performance objectives to those of the team's, the team's objectives to those of the division's, the division's to those of the Department's, the Department's to those of the Cluster's, and the Cluster's to those of the city's.
- Improving internal and external monitoring and reporting activities to ensure compliance with District and federal requirements.
- Re-deploying programs and funds to production based agencies where they can be more rapidly and effectively used to produce housing.
- Working closely with affiliate organizations such as the Department of Consumer and Regulatory Affairs, Department of Public Works, DOES, and others that support our housing and economic development production efforts, to ensure that our processing priorities are shared.
- Aligning the development and outreach activities of Community Development Corporations that receive funds from the city to better address community needs.
- Strategically invest funds within specific target areas based on comprehensive redevelopment plans promulgated by the Office of Planning.
- Developing and enhancing incentives that compel people to locate to Washington and encourage developers to build in Washington.
- And, developing stringent oversight procedures for funds accounting.

In the past, when we formed interagency and external partnerships to complete a project, it resulted in a more streamlined and efficient process. We need to have shared investment areas and priorities, so projects that are important to our Department are also important to the various agencies that a potential developer will interact with during the development process. Therefore, when a developer comes to an agency with a project that is located in a shared strategic area, it can be ushered through the various processes with ease.

Once these internal and external operational improvements take effect, we will be able to burn through our annual allocation of federal funds; effectively leverage additional funds needed to meet the demand for preserving and producing affordable housing; double housing production in the city; and create one of the best housing delivery systems in the country. In order for our effort to be successful and effective, we need broad bipartisan support. Indeed, it will take all of us to change the culture and thinking associated with the restricted system of today into the dynamic system of tomorrow.

Conclusion

The Department is actively involved with projects all over the city that enhance the quality of life for residents by encouraging neighborhood revitalization, increasing homeownership opportunities, and stimulating economic development opportunities that provide jobs and quality goods and services.

This fiscal year, DHCD has made, and will continue to make, significant strides toward improving the available stock of decent and affordable housing in the District and creating the necessary catalysts needed to spur economic development deep into our under-served communities. In FY 2002, we will work twice as hard to ensure the funds allocated to the Department are spent to increase the quality of life for every citizen in Washington.

Chairperson Brazil, this concludes my prepared statement. I will be happy to respond to questions at this time.

Attachment